

CREDIT RATING ANNOUNCEMENT**GCR upgrades Victoria Commercial Bank Limited's rating to BBB+(KE); Outlook Stable.**

Johannesburg, 30 July 2018 -- Global Credit Ratings ("GCR") has upgraded Victoria Commercial Bank Limited's long-term national scale ratings to BBB+(KE) and maintained the short-term national scale ratings of A2(KE); with the outlook accorded as Stable. The ratings are valid until 31 July 2019.

SUMMARY RATINGS RATIONALE

Global Credit Ratings has accorded the above credit ratings to Victoria Commercial Bank ("VCB", "the bank") based on the following key factors:

Victoria Commercial Bank Limited has strong asset quality, adequate capitalisation, good earnings as well as stable funding and liquidity. The bank's ratings are, however, constrained by its lack of diversity and low number of clients, which implies lower systemic importance relative to the larger local banks.

VCB has a highly selective client base; stringent pre-loan application processes; and strong risk management capabilities; which enable it to achieve strong asset quality. The bank's gross non-performing loan ("NPL") ratio of 0.1% at FY17 reverted back to 0% at 1H18 is expected to remain at the ten-year average of 0%. VCB is expected to maintain a lower risk profile relative to its peers.

The bank's capitalization is considered adequate with a Tier 1 capital adequacy ratio of 22.1% (24.7%) against a regulatory minimum of 10.5% and a total risk weighted capital adequacy ratio of 22.7% (25.5%). GCR expects the bank's Tier 1 capital ratio to remain adequate ranging from 19.0% to 22% over the next 12 months mainly being addressed through organic growth and earnings retention. The bank's earnings performance remained solid with Net profit before tax increasing by 6.6% to KES849.2m at FY17 buoyed by a 37.7% increase in fee and commission income while net operating income also increased by 16%. However, operating expenditure increased 24.8% resulting in a cost ratio of 46.2% (FY16: 42.9%) which compares favourably to peers. ROaA slightly declined to 2.6% (FY16: 2.8%) while ROaE reduced slightly to 11.6% (FY16: 13.8%). Earnings growth is expected to continue albeit at a lower rate as economic conditions improve and the bank reduces its cost of funding by growing retail deposits.

The bank's funding base is stable as it is predominantly funded by deposits comprising 71% of total funds with shareholder funding contributing 22%, and DFIs and others 7%. Customer deposits comprised a higher 92.1% of liability funding at FY17 (FY16: 91.2%) drawing from its relationship-based business model, branch expansion and rise in deposit base. Customer deposits grew by 19% in FY17 against 6.5% YoY average customer deposit growth for the banking sector at end-December 2017. The growth is expected to continue as the bank continues to expand its branch network, this growth rate is expected to be maintained in the next 12 months. The bank, has been incurring relatively high funding costs owing to its narrow target market for deposit generation and lack of transactional deposits. The bank manages mismatches, by maintaining its liquidity ratio above both the regulatory and board approved minima. The ratio of liquid assets to short-term funding registered 37.5% at FY17 (FY16: 38.2%).

With its relatively lower number of clients and lack of diversity, GCR considers that the scale of the bank exposes it to greater operational risk compared to its peers with larger market share.

The bank's rating could be positively impacted if the bank continues to outperform the market in terms of asset quality, capitalisation with improved funding and liquidity metrics. The ratings could be negatively affected by a deterioration in asset quality, earnings, capitalisation, liquidity as well as change in business strategy.

NATIONAL SCALE RATINGS HISTORY

Initial rating (October 2012)

Long-term: BBB_(KE); Short-term: A3_(KE)

Outlook: Positive

Last rating (July 2017)

Long-term: BBB_(KE); Short-term: A2_(KE)

Outlook: Positive

ANALYTICAL CONTACTS**Primary Analyst**

Vimbai Muhwati

Credit Analyst

(011) 784-1771

vimbaim@globalratings.net

Secondary Analyst

Victor Matsilele

Junior Credit Analyst

(011) 784-1771

victorm@globalratings.net

Committee Chairperson

Matthew Pirnie

Sector Head: Financial Institution Ratings

(011) 784-1771

matthewp@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions (March 2017)

Kenya Bank Statistical Bulletin (December 2017)

VCB rating reports (2012-17)

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.NET/RATINGS-INFO](http://GLOBALRATINGS.NET/RATINGS-INFO). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.NET](http://GLOBALRATINGS.NET).

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Victoria Commercial Bank Limited participated in the rating process via face-to-face management meetings and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

Information received from Victoria Commercial Bank Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2017 (and four years comparative numbers)
- Unaudited interim results at 31 March 2018
- Budgeted financial statements for 2018
- Latest internal and/or external audit report to management
- Corporate governance and enterprise risk framework

The ratings above were solicited by, or on behalf of, Victoria Commercial Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating Agency	An entity that provides credit rating services.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.



Global Credit Rating Co.

Local Expertise • Global Presence

National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.

For a glossary of terms please click [here](#)

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GLOBALRATINGS.NET/RATINGS-INFO. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.